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Commonwealth of Massachusetts Joint Labor-Management Committee for Municipal Police and Fire

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In the 1960s in the United States there was a widespread blooming of interest by public employees in labor organizations, in transforming professional and fraternal associations into groups that behaved like unions, and in developing collective bargaining processes where civil service and political and legislative enactments had previously exclusively determined the terms and conditions of employment in government. Local, state and federal governments stimulated and at the same time accommodated to the new era of growth in collective bargaining that continued into the 1970s. Today, two-thirds of federal civilian employees and half of state and local government employees are governed by collective agreements, far higher percentages on the average than in the private sector.

Background

In Massachusetts, effective in 1966, machinery was established to make determinations of units of public employees appropriate for collective bargaining, and the duty to bargain with certified groups was placed upon public managements. Disputes over the terms of collective bargaining agreements could be carried through mediation and fact-finding with recommendations, but there was no procedure requiring arbitration or other steps for final resolution, although the use of the strike or lockout was prohibited.

The quest for steps to achieve a final resolution of disputes over the terms of collective agreements led to legislation, effective July 1, 1974, providing for last-best-offer arbitration after fact-finding with recommendations for police and firefighter units in cities and towns of the Commonwealth. This form of final and binding arbitration requires the arbitrator to choose between the package of final proposals made by the union and that made by the city or town. Subsequently, the arbitrator could also elect the package of recommendations made by the fact-finder. The arbitrator could not, as in conventional arbitration, elect a position in between the parties on any of the several issues. The theory of the last-best-offer approach is that each of the parties will be compelled to come closer together, and perhaps reach agreement, in order to avoid a win by the other side. The arbitrator is required to choose the side of one party or of the other. There is accordingly always a winner and a loser unless the parties submit the identical final offer.

In the course of the first three years that the last-best-offer arbitration procedures were in effect, 1974-1977, the management organizations for the cities and towns became convinced, whether warranted or not, that the process was adverse to their interests and favored the police and fire unions. The management associations sought major revisions or repeal of the last-best-offer arbitration provisions. The legislature, nonetheless, voted in June 1977 to extend the statute for another two years, and Governor Dukakis vetoed the bill. The legislature voted, however, to pass the bill over his veto before July 1, 1977. The cities and towns, unwilling to give up the political fight against final and binding arbitration, decided to go out for a referendum to get the signatures to place the issue on the ballot for the 1978 state election.

There had been some unsuccessful attempts by representatives of the cities and towns and the professional firefighters union in joint discussions to compromise the issues during the course of the legislative fight. In the last week of August 1977, while the signatures for the referendum petition were being gathered, representatives of the two sides visited Professor John T. Dunlop to seek his assistance in resolving the controversy. The prospects of continued political conflict seemed to concern both the cities and towns and the fire and police unions.

In the course of a few sessions, including both joint candid discussions and separate meetings, full accord was reached shortly after Labor Day, 1977 on the text of a written agreement between Demitrios Moschos and Kenneth Shaw representing the cities and towns and J.J. Jennings, Martin E. Pierce and T. Dustin Alward representing the Firefighters. Major state-wide police organizations were kept advised of developments by the firefighter representatives. The agreement was rewritten in legislative form by the two sides, cleared with the Governor and legislative leaders and quickly enacted into law without serious opposition. The Governor signed the bill November 15, 1977. The Joint Labor Management Committee for Police and Fire was to begin handling cases on January 1, 1978. All sides seemed relieved to put behind them the intense and bitter political conflict of the preceding months.

There are approximatey 165 local labor organizations representing 11,700 firefighters and 252 local labor organizations representing 12,200 police officers in the Commonwealth.

The Major Features of the Compact

1. The management side was opposed to final and binding arbitration and its last-best-offer form on the grounds that this prescribed last step, by its certainty, truncated and

stultified genuine mediation and collective bargaining in many cases. Negotiations and mediation too often became a perfunctory step added to the long drawn-out process of fact-finding and then arbitration. The management representatives had no persuasive alternative to final and binding arbitration since they did not favor resort to a strike or lockout, in the event of a genuine impasse in which collective bargaining and mediation were fully exhausted. The unions were in favor of more effective negotiations and mediation, although they insisted on retaining some form of final and binding arbitration since they opposed resort to economic strife, which they were convinced would turn public opinion against the unions, almost without regard to the merits of the contract dispute. The union and management representatives both recognized that arbitration served as a means of requiring cities and towns to fund the terms of collective agreements, whether voluntarily agreed upon or imposed by an arbitrator, and that arbitration provided a way to deal with recalcitrant parties, although court challenges often made the process excessively lengthy and expensive.

The common ground was to enhance the role of genuine collective bargaining and imaginative mediation so that final and binding arbitration, except in an agreed-upon settlement expressed as an arbitration award for the convenience of both sides, would be rare and be used only in the event of a genuine impasse. The way to achieve a greater role for collective bargaining and mediation, in the view of Professor Dunlop, was to involve experienced representatives of the state organizations of management representatives and of police and firefighters in the negotiation, mediation, and arbitration processes involving individual cities and towns.

Practical settlement and accommodation should be pressed at each stage; the parties themselves, or their statewide representatives, would have a greater and more responsible role and would bring a wider perspective and greater experience to a dispute. The role of lawyers and arbitrators and the frequent litigious quality of their proceedings would be reduced; the settlement process could be materially speeded up and the expenses of the settlement process materially reduced. Settlements would be more practical and better shaped to the interests and needs of the parties. Designing the forms of third-party intervention to suit the problem and the parties would be more conducive to practical accommodation than the single last-best-offer arbitration which requires an overt winner and loser according to whether the arbitrator picks the proposal of one side or the other.

2. The representatives of the cities and towns were concerned to enhance the capacity of municipal managers to manage effectively police and fire departments. They had long sought to legislatively eliminate from bargaining units the job classifications held by officers immediately below the rank of police and fire chiefs. But there were few, if any, cities and towns where such officers could honestly be said to exercise significant managerial functions. The issue was resolved in the mediation sessions leading up to the new statute by an understanding that should any city or town develop a significant actual managerial role for such an officer, after a hearing, that officer could be eliminated from the bargaining unit on the showing that significant managerial functions were performed.

3. The representatives of the cities and towns and these public safety unions recognized that collective bargaining in the decade ahead faced complex and difficult issues and that an attitude and relationship of greater constructive discourse and cooperation would be helpful to all parties and to the Commonwealth generally. The Joint Committee was envisaged as a forum around which such discussions could be held. Some issues were larger, such as the common interest in questions regarding the civil service system, the quality and neutrality of appointments to labor relations posts in the Commonwealth, changes in police and fire departments to improve productivity and constrain costs in an era of tax-caps, and concern with costs of governmental services.

Structure and Operations of the Joint Committee

The legislation, based on the compact, created a 12-member joint committee comprising six management members, three from the firefighters and three from the police labor organizations and an impartial chairman. The management and labor members were to be nominated by the respective organizations, and the impartial chairman was to be agreed upon and nominated by the other committee members jointly. The Governor was required to appoint to the Joint Committee these specific nominees. Unlike other state agencies, the Governor and the political process were precluded from discretion in the appointment of the members of the Joint Committee. The management representatives have been drawn from the various management elements in municipal government to be representative of all groups: mayors, city managers, finance committees, boards of selectmen, personnel boards, etc.

These arrangements were designed to enhance the responsibilities of the parties for the work of the Joint Committee, to provide access to the complex structure of municipal government by peers and thereby to encourage effective mediation and settlement. It is difficult to exaggerate the advantages in mediation and dispute resolution, as compared to the role of a solo neutral, that are provided by a team including experienced management and labor representatives who can relate well to the parties in the particular town or city in a dispute over the terms of a collective bargaining agreement. There are numerous operating questions, for instance, on which a neutral has little background. Local political factors and personalities often play a major role in local management and in fire and police locals. The roles of lawyers vary greatly. Representatives of labor and management can elicit information and real positions and counsel modification of views often more effectively than an outside neutral. They are most helpful in the complex internal political features of municipal government and labor organizations which are so decisive in municipal collective bargaining.

The Committee permits the coordination of dispute resolution as between fire and police collective agreements in the same community and among contiguous localities in a way that was not possible under the pre-1978 arrangements where each case was largely a separate entity and comparative conditions were argued before separate fact finders and last-best-offer arbitrators. The whipsaw between fire and police negotiations can be substantially mitigated. The statute reflecting the agreement of September 1977 states that "the Committee shall have oversight responsibility for all collective bargaining negotiations involving municipal police and firefighters."

The Committee has (in the summer, 1980) a full-time staff of two senior representatives, one from management and one from labor, three other mediators, and administrative and research or data-collecting support. Originally the Committee was authorized to intervene in a dispute at any stage; the most recent legislation, in June 1979 extending the life of the Committee for four more years to June 30, 1983, provided that all fire and police disputes over the terms of collective bargaining agreements should be referred initially for thirty days to the Committee. Thereafter the dispute is to be remanded to the State Board of Conciliation and Arbitration, although the Committee is subsequently free to reassert jurisdiction over a dispute at any stage. Under the chairmanship of Paul McCarthy at the Board, the Committee has enjoyed a close and cooperative working relationship.

The Committee initially assigns a staff mediator to a dispute brought to the Committee by one or by both parties to a fire or police collective bargaining relationship. The staff gathers the facts of the dispute, identifies and seeks to

narrow the issues and engages in mediation. The dispute may then involve mediation by the senior staff representatives, and at a later stage may involve labor and management members of the Committee. Firefighter members only are involved in firefighter contracts, and police members only participate in police contract disputes. If unresolved, a case may involve a sub-committee with the chairman or vice-chairman (Professor Morris A. Horowitz of Northeastern University) for further mediation. The Committee may then refer the dispute to a form of final and binding arbitration, certifying the issues in dispute before the chairman or vice-chairman or to an outside arbitrator. The tools available to the Committee at an earlier stage also include fact-finding or a formal mediator's proposal. Thus, the Committee envisages a wide range of devices for settlement adapted to the particular dispute and parties in contrast to the single form of fact-finding and last-best-offer arbitration mandated by legislation to the Board. With a single, certain procedure too many cases tended to go through to the end of the line—last-best-offer arbitration and various court challenges. The Committee uses a wide range of methods to induce direct settlement, an award incorporating their agreement, or an award agreed upon by the labor and management members of the Committee handling the case, or an award by an outside arbitrator who in "med-arb" should also have sought to achieve an agreed-upon settlement, to take the form of an arbitration award.

The attached two tables present information for the period 1975-79 on the operation of the procedures prior to the establishment of the Joint Committee and information on the operations under the Joint Committee. Before the establishment of the Joint Committee there were 97 last-best-offer awards and since the establishment of the Joint Committee there have been 7.

Cases which went the entire last-best-offer route required 15.2 months for resolution compared to the 6.8 months for cases using formal procedures before the Joint Committee. The over-all average time for all cases under the old procedures was 6.7 months compared to an over-all average of 3.6 months under the Joint Committee.

Overview of Police and Fire Impasse Activity Under G.L. Ch 1078, Acts of 1973 Fiscal Year 1975-79

* Labor organizations representing both police and fire departments are entered in both the police and fire headings.

A. Stage of Settlement

	Total # of Impasses	*Settled Prior To Appt. of Factfinder*	*Settled Prior to Factfinder Report*	*Settled Upon Issuance of Fctfndg Report*	*Settled After Fctfndg Report*	*Settled By LBO Award*
Fire:	274	101	35	52	30	56
Police:	381	145	86	71	30	48
Aggregate:	648	245	118	121	60	104

B. Average Settlement Time (Months)

	Pre-Factfinding Report	*Factfinding Report*	*Post-Factfinding Report*	*LBO Award*	*Overall*
Fire:	3.31	8.81	9.24	15.17	7.41
Police:	3.04	8.48	8.95	15.32	6.07
Aggregate:	3.18	8.79	9.10	15.24	6.69

Overview of Joint Labor-Management Committee

Case Activity

Date	*# of Cases*	*Informal Settlement*	*Formal Settlement*	*LBO Award*	*Pending Cases*
9/30/78	28	10 35.7%	4 14.3%	1 3.6%	13 46.4%
1/31/79	80	30 37.5%	11 13.75%	1 1.25%	38 47.5%
5/31/79	91	44 48.4%	18 19.8%	3 3.3%	26 28.6%
9/30/79	124	54 43.5%	24 19.4%	5 4%	41 33.1%
12/31/79	136	62 45.5%	28 20.6%	5 3.7%	41 30.1%
3/31/80	160	73 45.6%	36 22.5%	5 3.1%	46 28.75%
6/30/80	200	95 47.5%	41 20.5%	5 2.5%	59 29.5%
9/1/80	221	111 50.2%	45 20.4%	7 3.2%	58 26.2%

Average Settlement Time (Months) as of 9/1/80

a. Pursuant to G.L. Ch 150e, Acts of 1977:

Informal	*Formal*	*Overall*
4.54 n = 59	7.85 n = 39	5.85 n = 98

b. Pursuant to G.L. Ch 154, Acts of 1979:

Informal With Jurisdiction	*Informal Without Jurisdiction*	*Informal Removed from BCA*	*Informal Referred to BCA*	*Formal JLMC Only*	*Formal Removed from BCA*	*Overall*
3.57 n = 22	1.73 n = 17	3.29 n = 10	2.90 n = 3	6.78 n = 8	6.59 n = 5	3.63 n = 65

Changes in the Legal Regulation of Small Businesses

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This article does not attempt to discuss all the ways in which small businesses are, or could be, specially regulated. It is confined to a few problems that fall under partnership and corporation law. In particular, it examines adjustments of rights among creditors of the firm and among partners, shareholders and directors. Special attention is directed to the role of the family in business and the significant financial relationships that grow between small firms and more powerful businesses with which they trade.[1]

Limitations of Present Law

Business ownership offers the tantalizing prospect of money, property and status. Ownership is also attractive for those who dislike working for others and/or fear becoming lost in a large organization, desire to be their own boss, aspire to build a family business (ownership later being passed on to the children), and hold a conviction that one can produce better products or services than do existing firms.[2] Individuals or small groups often create firms because they are determined to found them rather than because it makes economic sense. This resolve often leads to difficulties with creditors and with management of the firm.

Accompanying the creation of such firms are problems involving creditors and management that customary state corporation laws can not suitably remedy. Corporation law presupposes a demarcation between ownership and management and requires complex rules for decision making. By contrast, partnership law presupposes a few owners, who manage with a comparatively simple system of decision making. Even so, in the face of some well known disadvantages including the expense and work involved in forming a corporation and in complying with statutory report and disclosure duties, founders of many small businesses are attracted to the corporate form of organization rather than to the sole proprietorship or partnership. The attractions include the prospect of limited liability, and, to a lesser extent, the unlimited life of the firm, flexible ownership transfer, and various tax considerations. Overlooked may be the possibility that corporation law may be unsuitable for a small business's relationships with its creditors and for relationships between its shareholders' directors and other participants.

Many small businesses are "close corporations" without public participation in ownership through the stock market. The shareholders are few and may be limited to members of a family. The corporation statutes of only a few states (Massachusetts being one) provide any modification of law to meet the special needs and problems of close corporations.[3] If exceptions exist, courts most often create them, sometimes by the importation of partnership concepts or analogies.

Creditors

Many small firms see the local bank as the beginning and the end of institutional finance. Indeed, a significant minority relies on external loans for a high proportion of its total finance, a practice restrained only by the lender's fear of mismanagement leading to business failure. This fear motivates bankers to recommend greater equity funding,[4] but entrepreneurs fear losing control to outside investors. The same fear blinds the truth that it is better to own less than all of a going concern than all of a business in bankruptcy. In any event, some control may be lost if the lender is astute enough to insist that, in addition to security for the loan,owners must provide adequate assurances of proper management. Sometimes the lender's lack of confidence in proper management motivates his or her active participation. Hence, the lender may advise, command, make policy decisions, and informally choose directors and managers. In the meantime, the lender can easily circumvent the founder's limited liability by obtaining the personal guarantees of loans from directors and shareholders.

So far as creditors perform risk-bearing and managerial functions, they are, in fact, the true entrepreneurs in not a few small companies. They are real participants in the partnership or in the close corporation with the shareholders. In addition to managerial domination of a small business, the secured creditor has many of the rights associated with ownership—power of sale, claim on proceeds and influence over use of assets. However, only in the context of fraud has it been seriously suggested that large-scale creditors might be liable to other creditors because of their managerial participation in small debtor firms.

To go further might seriously threaten small business finance, and yet, there are times when it might be desirable. Trade creditors supply stock-in-trade, raw materials and other essential goods and services for day-to-day operations. Generous trade credit is one means of making the small customer dependent upon its large supplier. Unlike interventions by an institutional lender into the affairs of a small firm, the supplier may be "moving in" to absorb the firm into its own organization. Because some trade creditors do participate in the management of smaller businesses, the former are at least *de facto* a part of those firms.

The rights and liabilities of a dominant trade creditor participating in management compared with those of other creditors need consideration. As a separate entity, the dominant firm is not saddled with the liabilities of the small business. It has the right to enforce its security interest in collateralized assets, and,therefore, has many of the rights associated with ownership mentioned above in the discussion of loan creditors. But in insolvency proceedings precipitated by inadequate or pernicious management participation by a dominant trade creditor, should it be made responsible for the small firm's other business debts? Should it be treated similarly to a shareholder, when the corporate veil is pierced, or perhaps as a partner? One answer is to make it in some way a *de jure* part of the firm, something it may have been, all along, attempting to become.

By whatever legal device, as a *de jure* or *de facto* part of the firm, fiduciary duties could be imposed on dominating trade creditors as they are imposed on partners, directors and officers. Furthermore, it has been suggested that, if the business becomes insolvent, such a creditor should be relegated to the bottom of the list of priorities or even face liability (as with shareholders and directors) in response to fraudulent trading, or inadequate capitalization.[5]

Deadlocks and Squeeze-outs

There are a number of times in the growth of a small firm when its structure is likely to generate conflict among owners and managers. When a few people jointly manage a business and own it in approximately equal shares, corporation law seems incongruously complex. Something like partnership law would better apply to the situation when two or more who have operated a business as co-equals can no longer maintain equality or mutual trust. One founder may perceive a once necessary co-entrepreneur now to be a drag on the business and, hence, try to rid the business of the detriment. Or, an offspring who has worked hard for the firm

and who in due course has earned ownership and management rights may resent and dispute the founder's continued dominance. Or, owners and managers who do not belong to the firm's dominant family may be thwarted by nepotism in their aspirations to attain top management positions. These conflicts may lead to deadlocks or attempts to squeeze-out others from management or ownership.

When prescribed rights and procedures including voting power can aid no faction to achieve its aims, a deadlock exists. Squeeze-outs are attempts to expel a minority faction from a position of management or ownership. In a partnership, an aggrieved partner's legal protection is virtually guaranteed, although the choice of remedy is limited. A dissolution and accounting of assets and profits is the standard remedy; yet, others are available. Conceivably a partnership agreement could provide for expulsion of partners who fail to devote sufficient time to the business or who engage in a competing business as a squeeze-out tactic. The expelled partner would be paid off according to the agreement, while being enjoined from further competition including an order to surrender the profits gleaned from the competing business.

In a corporate situation dividends may not be declared, or remuneration of directors and officers may be excessive. The disadvantaged minority shareholder is hemmed in by the principle of majority rule and the difficulty of proving the directors' bad faith. A breakdown of personal relations, or mutual trust and confidence usually follows. This result should be enough to treat a small corporation more like a partnership.[6] For example, the situation could justify a winding-up, even when the company is a prosperous concern. The same treatment could be accorded in a squeeze-out case.

Anticipation of deadlocks and squeeze-outs could foster planning that provides structures and mechanisms for avoidance or resolution acceptable not only to the owners and managers but also to the courts. There are clear limitations to this tactic. Many small entrepreneurs will not want to spend the time or money at the time of incorporation. Further, under changed circumstances, entrenched rights can become a nuisance to everybody.

Although there are many proposed legal solutions that contend in detail with deadlocks and squeeze-outs,[7] limitation of space requires the proposal of a broadly generalized approach to change in the law. Without now defining "small business," the distinction between incorporated and unincorporated small businesses could be eliminated and replaced by a single small business legal structure combining, so far as possible, the best features of present-day partnership, general corporation and close corporation law. For example, corporate law could contribute the principle of the separate legal entity, perpetual life and easy transfer of ownership. Partnership law could contribute easy registration procedures, a simplified business constitution, simplified duties of good faith, rights to participate in management without being expelled by a majority of fellow partners, and the requirement that no partner be involved in a business competing with that of the partnership. Further, there could be one taxation system.

Conclusion

Only a few small business areas needing special treatment have been examined. There are many more. Perhaps the best that could happen, given the great importance of healthy small businesses to the economy of the Commonwealth of Massachusetts, is that a special commission be empaneled to study the matter and to report its findings and recommendations to the business community and then to the legislature.

End Notes

1. This article is drawn in substantial measure from M. Chesterman, *Small Business* (Sweet and Maxwell, London, U.K., 1977).
2. D. Collins and D. Moore, *The Enterprising Man* (Michigan State U., E. Lansing, Mi., 1964); N. Smith, *The Entrepreneur and His Firm* (Michigan State U., E. Lansing, Mi., 1967).
3. A. Wolfe and F. Naffziger, *Legal Perspectives of American Business Associations* (Grid, Inc., Columbus, Ohio, 1977) p. 308.
4. H. R. Hartzler, "New England Needs Venture Capital" *Massachusetts Bus. and Econ. R.*, Vol. 7, No. 2 (Fall, 1979) p. 2.
5. Chesterman, pp. 251-2.
6. For a good example see Galler v. Galler, 32 Ill 2d 16, 203 N. E. 2d 577 (S. Ct. Ill., 1964).
7. Chesterman, pp. 161-199, 246-258.

The October 1980 Massachusetts Economic Policy Analysis (MEPA) Model Forecast

by George Treyz and Roy Williams*

Employment declines in Massachusetts manufacturing in the second and third quarters of 1980 were particularly noticeable in the nondurables sectors where third quarter seasonally adjusted employment is expected to be down five percent from the first quarter. The durable goods sectors were hit by the national recession but the average decline was small because of two special factors. First, our representation in automobile-related sectors is much below the national average. Moreover, our auto production is in small cars, which have fared relatively well recently. Second, Massachusetts' production of office machinery, computers, and electronic components has offset declines in other durable goods industries.

Total employment in Massachusetts in the third quarter also benefited from an increase in service employment associated with the celebration of Boston's 350th birthday. On balance, then, Massachusetts' unemployment rate held at about six percent in the third quarter up from five percent in the first quarter but about the same as in the second quarter.

The MEPA model continues to predict some increase in the unemployment rate with levels between six and seven percent in the next two quarters. This would be due to some

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Massachusetts
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OCTOBER CONTROL FORECAST

SUMMARY REPORT
MASSACHUSETTS ECONOMIC POLICY ANALYSIS MODEL
(Seasonally Adjusted Annual Rates)

	1979	1980	1981	1980:3	1980:4	1981:1	1981:2	1981:3	1981:4	1982:1
Employment—Nonag. W. & S. †	2603	2657	2681	2657	2640	2654	2673	2689	2709	2730
% Change	3.1	2.1	.9	-.2	-2.5	2.1	2.9	2.3	3.1	3.0
Manufacturing Employment †	674	668	664	658	656	659	662	665	670	673
% Change	3.4	-1.0	-.5	-8.7	-1.3	1.7	2.0	1.8	2.5	2.1
Non-Manufacturing Employment †	1928	1989	2017	1999	1984	1995	2011	2023	2040	2056
% Change	2.9	3.1	1.4	2.9	-2.9	2.2	3.2	2.5	3.2	3.3
Unemployment Rate	5.5	5.9	6.5	5.8	6.7	6.6	6.4	6.5	6.4	6.3
Rate of Wage Change	7.9	8.5	10.5	8.1	10.3	10.5	10.7	10.9	10.8	10.1
Wage Index Re. to U.S.*	94.3	94.0	94.6	94.2	94.4	94.4	94.6	94.7	94.8	94.9
Avg. Weekly Hours in Mfg.	40.4	40.0	40.3	39.8	40.0	40.2	40.3	40.3	40.3	40.4
Rate of Price Inflation	10.3	12.7	10.2	8.2	11.4	10.5	9.6	9.8	10.6	10.4
Relative to U.S. CPI*	96.6	96.0	96.2	95.9	96.1	96.1	96.1	96.2	96.3	96.3
Personal Income (mil$)	51019	57204	64018	58032	59359	60930	62862	65036	67243	69305
% Change	11.5	12.1	11.9	12.3	9.5	11.0	13.3	14.6	14.3	12.8
Disposable Income (mil$)	42581	47660	53392	48404	49380	50589	52099	54566	56315	57951
% Change	10.1	11.9	12.0	13.5	8.3	10.2	12.5	20.3	13.4	12.1
Real Per Cap. D.I. Index*	106.4	105.4	106.2	105.9	105.0	104.7	105.1	107.3	107.7	107.9
Relative to U.S.*	101.1	104.0	104.2	104.6	103.8	104.0	104.2	104.3	104.4	104.3
Rel. Business Cost Index*	96.6	96.5	96.8	96.6	96.7	96.7	96.8	96.9	96.9	96.9
Manufacturing*	96.5	96.3	96.6	96.4	96.4	96.4	96.5	96.6	96.6	96.7
Non-Manufacturing*	96.7	96.6	96.9	96.7	96.8	96.8	96.9	97.0	97.1	97.1

*Indexes equal 100 in calendar 1973.
† Thousands of persons

continued declines in the equipment investment component of the national economy and to some reduction in the temporary beneficial effect of Jubilee 350 in Boston.

The question of whether or not Massachusetts has become recession-proof has been coming up recently. Our judgment is that it has not become so. Many recessions are associated with large drops in capital investment, which could effect Massachusetts more than other states. In fact, even in this recession these effects will linger in Massachusetts as curtailed capital investment continues after automobile production and residential construction recover. Rather than becoming recession-proof, Massachusetts may in fact become more susceptible to another type of instability: the high technology sector of the economy can fluctuate severely due to shifts in technology and to rapid swings in federal defense spending. While underlying growth may mask the effects of these fluctuations over the short or even intermediate run, such shifts may present a problem for Massachusetts in the more distant future.

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Massachusetts
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Oil and the Energy Problem

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Ever since the human race came down from the trees, it has been moving from one mix of energy sources to another, depending on which has cost the least. Sometimes the adjustment has taken individuals pretty far. Some even migrated from Old to New England to keep warm. The climate was harsher, but firewood was dirt cheap. "Here is good living for them that love good fires," wrote Henry Higginson in the 1630s.

But using a given fuel not only poses costs in the labor and capital needed to get it, but also in protecting the environment. Millions of bone-poor people are further impoverished today by burning dung, thus robbing the soil of its fertility. Those better off must worry about coal smoke and nuclear wastes.

The transition from one energy mix to another is slow because it can be summed up in one word: *investment.* It involves changing over the whole capital stock of society. The tangibles—buildings and machinery in which we live, work, and travel—are no more important than the intangibles—habits and methods. Even when new technologies are known and perfected and repay the cost of installation, it seems to take about nine years to replace half of the energy-using equipment, nine more years to replace half of the remaining half, and so on. But when the technology is in the early stages, all bets are off. Hence, "alternative energy sources" like large scale solar power are for the sweet by-and-by. It is worth spending large sums to study and perfect them, but they have no relevance for this generation or the next. Maybe they will help in the twenty-first century.

Public opinion on energy matters is bemused by the notion that there can be an energy "gap" or "shortage". But as Porgy and Bess might have said, a shortage is a sometime thing. Past a winter, if the demand for energy exceeds the supply, the price rises until the gap is closed. The price rise brings discomfort in rich countries, and kills thousands in poor countries. The more we worry about the nonexistent "shortage", the less we can cope with the real problems.

Of course the most disturbing and difficult part of the energy picture is oil, particularly imported oil. Worldwide there is no lack of oil in the ground. The proven reserves, in relation to production, are higher than they were forty years ago, though they are decreasing in the United States. This does not prove that things have been getting better all the time. "Proven reserves" are only the ready shelf inventory. In a competitive industry, more reserves and productive capacity are developed when there is profit from providing more. But a monopoly can make even more money by not providing more capacity.

Over the last ten years, a small group of nations has controlled the world supply of crude oil, and raised the price by a factor of 13, *after* allowing for inflation. They will raise it even more. Nobody knows in advance what the traffic will bear. The market response is so slow and uncertain that probably nobody will know even years afterward. The cartel nations (the members of OPEC, the Organization of Petroleum Exporting Countries) know it no better than the rest of us. They will probably overshoot and raise the price too high even for their own good. Some of them want higher prices than others. All of them, without exception, want a much higher price than exists now. In particular, Saudi Arabia was the most important single force in raising the price from $7 to $10.50 in 1974, and from $12.50 in late 1978 to $32 per barrel today. The official legend holds them to be good guys; the public record shows them as no different from the others, except as the biggest restrictor of supply. With 45 fields known, they operate 15; from drilling 177 wells in 1973, they are down to 55 in 1979—not to "conserve," but because high prices are cutting demand faster than expected.

Consumption of oil in 1980 was actually less than in 1973 in the non-Communist world (excluding the OPEC countries, where oil is not a normal commodity but a freebee). It will probably keep going down, while energy consumption of all types stagnates or grows very slowly. This is unprecedented. Not even in the Great Depression did we see an eight year stagnation. There was a small decline in 1930-33, and a new record established in 1935.

The primary reason is found in the higher prices of 1973-74. As noted earlier, the consumption response is through investment, and works slowly. (The "conservation ethic," harassing people to lower their thermostats, laws to stop oil burning in utilities someday, somewhere are negligible.) The slow-acting effects of the 1973 price explosion were discernible by 1978. The much bigger price hikes of

1979 are just beginning to be felt. These effects, plus slow worldwide economic growth, will keep worldwide oil consumption declining for years. If the cartel continues raising the price, consumption will decline even more.

There is no free lunch. People cut back consumption by spending money for new houses, more fuel-efficient automobiles, office buildings, etc. and for retrofitting their old buildings and equipment. Providing more energy is also expensive. Together, they cost a huge amount which is not available to increase capacity in producing all kinds of goods and services. In other words, the process decreases economic growth. But this is the least bad adjustment we can make.

As consumption declines, output in the non-OPEC nations has very slowly increased. OPEC exports have been declining since 1973, and will decrease more. In the United States, oil production has been stable for about two years, and imports are off by one-fourth since the 1977 peak—with no thanks to noise from Washington.

This sounds like a forecast of "no tight markets" and stable prices. Nothing of the kind. The cartel of the OPEC nations exists to create shortage and raise prices despite ample supply. The less we demand, the less they will produce. The slogans with which our citizens like to beat each other over the head are meaningless. We will neither produce nor conserve our way out of a nonexistent crisis.

We have two real problems. First, the high and rising prices. Our guiding principle should be—don't make things worse. Price controls on oil and gas have made things considerably worse. The misnamed windfall profits tax is really price control at a higher level. And price controls misinform producers and consumers. They prevent both parties from making the investment needed to bring about lower consumption and higher production. As noted earlier, this investment is a burden on the economy. But it pays off because the total cost of the energy saved or conserved is less than the cost of imported oil.

If gasoline prices had been allowed to rise seven years ago, automobile buyers would gradually have straggled toward smaller and more fuel-efficient cars. Instead, the low and even decreasing price of gasoline, in relation to prices of other goods and services, induced consumers to keep buying the same old cars. Then, in 1979 consumers did not straggle but stampeded towards smaller cars. Detroit has been thrown into convulsions. Chrysler is on the brink, while Ford and GM are losing money, and the cry goes up to make a bad situation even worse. Trying to keep out Japanese imports will do both economic and political damage.

The net result is that oil and gas which could be produced more cheaply than it costs to buy foreign oil are left in the ground. The economy as a whole pays more for its fuel, because foreign oil costs more than the aborted unproduced oil and gas. This is done to subsidize the energy consumption of rich, poor, and middle class families; the chemical industry, the airlines, the truckers, and other industries. Of course, it makes no economic sense. The real reason is the desire to bash the oil companies.

High oil and gas prices mean windfall gains to the producers, not to mention coal miners, heating control manufacturers, and many others. The income tax, individual and corporate, would take more than half of these windfall gains in order to deprive the detested oilman of his half.

So much for the first big problem, the price level. The other problem with oil imports is insecurity of supply. This will be helped little by even the best kind of policy. Our imports will probably be decreasing, but even if they went down to zero, we would still be insecure because our allies will import large amounts. And the shock to the world economy of a short term oil shortage is a shock to us immediately.

When supply is uncertain, buyers bid for much more than they want to consume. The penalties of running dry are so great that oil will be pursued even at the most extravagant price. The excess demand is channeled into the thin spot market, making prices explode.

Supply will continue to be uncertain for many years. It is hard to see the end of the condition. First, the "Arab oil weapon" might be used again. More important is the permanent political instability of the producing nations. Internally, the "outs" can only replace the "ins" through conspiracy and violence. So it is best not to be too cozy with any such government. Iran should have taught us that lesson, but we still cling to the illusion that the Saudi regime is strong. These nations are also unruly to each other. The Iranians call Iraqis "infidels", and the Iraqis recall that they had to teach the "insolent Persians" a lesson in 650 A.D. and will again do so now. These 1300-year-old hatreds may last for another 1300 years.

But even this instability does not expain why prices have exploded these last two years even when production equals or substantially exceeds consumption. The basic reason is in the brinkmanship of the OPEC nations, especially the Persian Gulf core. Before 1978, they fixed a price and supplied all demand at that price. But there would chronically be a glut on the market, and some price competition at the margin. For this and other reasons, the 1974-77 price increases were relatively small, and soon cancelled by the general inflation. Our comfort was their discontent.

In 1978, these nations turned to direct production control, and raised the price by 160 percent. The new system, therefore, is a great success. Unless it gives the cartel nations even bigger headaches than the old system, they will keep it.

But under the new system, production levels are set in advance. Not knowing current supply and demand, the producing nations are bound to overshoot or undershoot, producing either a glut or a shortage. These nations will risk a shortage to prevent a glut. But then a hint or fear of shortage makes buyers rush in to over-order and create the shortage. There was no other reason for the 1979 price explosion. Consumption was less than production, which was less than actual capacity, which in turn was far below potential capacity. It still is.

Stockpiles will not help our first problem, will not keep prices from rising in the long run. But they are the only way to cope with supply fluctuations and uncertainty, and to prevent price explosions. We saw the proof last year. The Iran-Iraq war cut production more than the Iranian revolution in

1978-79. Yet the price response was very mild. Inventories made the difference. These were mostly private. But public stockpiles are necessary, as a deterrent, and to prevent panic. They are more important as a preventive than as a cure.

If buyers are assured of supply even at a high price, they will not panic and over-order. Then market demand will not exceed consumption. If there is a deliberate production cutback, as in 1973, consumption itself can be moderately reduced by taxes. Allocation and rationing should be ruled out. Rationing will take too long to start up in an emergency, and allocation did only damage in 1979. No other country suffered the purgatory of long gasoline lines, because no other country tried the impossible job of allocating by month, region, and locality.

With a moderate cut in consumption and a large stockpile, we can ride out even long-drawn supply crises. If so, the chance of such crises becomes very small. A stockpile buys time to respond properly. The nature of that response is another subject.

Of course, the cartel nations are dead set against public or private stockpiles. What is good for us, they consider bad for them, and they should know. They make our policy. A 1975 law created a Strategic Petroleum Reserve. But the SPR was negligible even by late 1978. Then our government agreed to suspend buying for the SPR because the Saudis would not otherwise agree to increase output. They observed the agreement for about ten weeks, and then cut production. We still observe the agreement. A year ago, our Secretary of Energy flew to Riyadh to beg for the royal assent from the King of Saudi Arabia to resume SPR purchases. Permission not granted, so no SPR. Congress has now mandated a derisory 36 mbd a year, only twenty-seven years to build a billion barrel reserve.

When we gave in, we of course got fresh demands in 1980: that our govenent must pressure private companies into cutting their inventories or else—prices will rise. Again we obliged—and in December prices were again raised. Inventories now shrink as our government wishes, so we are being set up for a fresh price rise this year.

The insecurity will get worse until we recover our wits and our self-respect. The oil producing nations will produce what suits them, and will not be sweet-talked into anything else. Whatever they promise, there is no way of keeping them to their word. The record of broken Saudi promises these past ten years is remarkable. They are no worse than anybody else, but no different from anybody else. We have no bargaining power; we cannot deprive them of food, manufactured goods, or technology, because others will supply them. We cannot deprive them of military protection, because in our own interests we must give it. They need give us nothing to obtain it, so they will give us nothing for it. These nations are like minors who cannot be sued. Hence, anyone who extends them credit is asking to be had.

Things may change, and the cartel may run into serious trouble in years to come, but it would be imprudent to count on it at any given time. To minimize the damage they are doing us, we should decontrol and stockpile, and wait for the situation to change, as change it will.

Newly Established Small Business Development Center Serves Massachusetts Businesses

The School of Business Administration's newly established Small Business Development Center is now providing Massachusetts small businesses with financial, managerial, and technical assistance and training. As a cooperative venture of the U.S. Small Business Administration and the Massachusetts Department of Commerce, the Center offers free counseling for a variety of endeavors including marketing, loan packaging, accounting, and financial planning. The Center provides education and training for business start-ups, financial planning, merchandising, advertising, and management. The Center's information and referral facilities direct businesses to services provided by other agencies. Inquiries about the Center's activities should be addressed to Bryan Nicholas, SBDC Administrator, Room 205, School of Business Administration, University of Massachusetts, Amherst, MA 01003. Phone inquiries can be made at (413) 549-4930, extension 303.

On Performance Reports and Productivity

by Richard J. Asebrook
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The goal of increasing productivity in American industry has lately received increasing attention in a variety of forums. Factors that impede productivity include excessive government interference in business, a tax structure that hinders innovation, poor morale of the workforce, insufficient capital formation, outdated physical plant, and a preoccupation with the short-run. This paper focuses on the way that several of these factors are related to the use of financial control systems and resulting performance reports.

One purpose of a financial control system is to provide a means to appraise the performance of management; another purpose is to effect corporate goal congruence. Performance reports that emanate from such control systems produce a variety of popular performance measures such as residual income, profit growth, and return on investment. These indicators are routinely generated annually. In some companies they are also produced quarterly, or even month-

ly. Despite the variety of performance measures, the key element in most of them is profit. Virtually all will admit that profit (as calculated by the accountant in the short run) is an incomplete measure of performance, and that, at least in theory, it never is intended to be the only indicator of performance. However, two of the strongest motivators of personal behavior in a corporation—status and compensation—are often tied directly to the movement of some profit-related measure. Because the formal information system may focus so narrowly on the profit figure and its corollary performance measures, management's obsession with these indicators is understandable.

Our concern here is with the misuse of performance reports, not with the reports per se. There must be a willingness to look beyond the numbers when evaluating management. Moreover, short-run reports must be interpreted within a long-run framework. Numbers on a report should not be accepted blindly at face value, but should be subject to judgment override (also referred to as common sense). These straight-forward caveats are all too often forgotten in practice. A manager should not be afraid to make a decision that improves long-run productivity because it will look 'bad' on some short-run accounting report. But a 'numbers only, short-run mentality' makes managers reluctant to commit corporate resources to a new product or production process that requires years to bring on-line. Ironically, the way the control system is used might actively discourage the type of long-term strategies that are essential to successful competition in today's world markets.

To illustrate further, consider the following:

1) A divisional manager cutting back on supervision and quality control to help get closer to target profit for the next few months;
2) Major equipment acquisitions being delayed to avoid a drain on reported earnings during the initial phase of a new project;
3) Cutbacks in training and staff development to minimize the level of expenses reported in the current period.

These actions should not be rewarded. Each reduces the company's level of productivity, which depends, of course, on having quality products to sell, adequate capital equipment, and a competent workforce. In each of the above cases it appears that one is more concerned with managing reports than with managing events. Such dysfunctional behavior, if isolated, might be accepted as a necessary cost of running a large-scale enterprise. The growing concern, though, is that such behavior is not an aberration but the norm. As long as performance reports are interpreted literally, without the mitigating force of judgment override, it is reasonable to expect that the following rather cynical and counter-productive ideas will provide the driving force for an individual manager's behavior:

1) The only things that count are the things that are counted (i.e., the items included on the performance report);
2) Events and reports on those events need not move in the same direction; accordingly, time might better be devoted to managing reports rather than to managing events.
3) If one cannot have good performance, at least one can try to have a good performance report.

The January 1981 Massachusetts Economic Policy Analysis (MEPA) Model Forecast

by George Treyz and Roy Williams*

The performance of the Massachusetts economy in 1980 was mediocre on its own merits but extraordinarily good when compared with the rest of the U.S. Unemployment edged up only slightly in Massachusetts while it grew by almost one and one-half percentage points in the U.S. By the last quarter of 1980, the spread between the Massachusetts unemployment rate of 5.5 percent and the national rate of 7.5 percent was two full percentage points. Manufacturing employment declined in Massachusetts by less than one-half of one percent while the drop in the nation was almost three and one-half percent. Total employment increased in Massachusetts in 1980 by 2.6 percent compared with an increase of less than one percent in the nation.

In 1980 Massachusetts experienced an inflation rate of 12.6% while wages increased at a rate of only 7.6%. Both rates of increase were slightly below those in the U.S. The spread between the inflation rate and the wage increase rate of five percentage points is roughly the percentage drop in the real wage per worker. The net effect of the employment changes, the wage changes and changes in property incomes, taxes, and population was a decline of about one percent in Massachusetts real disposable per capita incomes in 1980 compared with 1979. While this drop is undesirable in itself, it appears modest compared with the three and one-half percent drop in U.S. real per capita income.

Against the backdrop of 1980, when the predicted recession in Massachusetts did take place but was barely visible, the MEPA projection for 1981 shows the first two quarters with slight declines in manufacturing employment but with a modest increase in total employment. The net effect is a slight increase in the unemployment rate. The reason that only a moderate effect of further national recession is felt in Massachusetts is that underlying growth in some industries remains strong enough to offset cyclical decline in other industries. After the first half of 1981 the MEPA model shows a growing Massachusetts economy with an unemployment rate moving to 5.0 by 1983, even though the national 1983 rate is 7.1 in the national forecast that we are using as an input to our forecast.

The continuation of the comparatively favorable performance in Massachusetts stems from the continuing relative

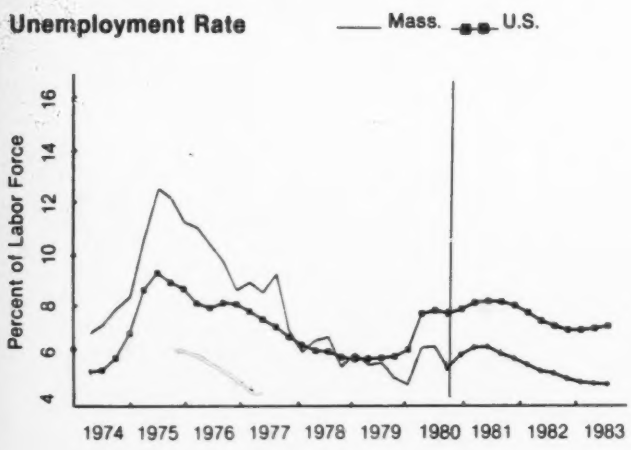
*Director and Associate Director, respectively, of the MEPA project, Economics Department, University of Massachusetts, Amherst, MA 01003. (Tel. 413-545-0915). Technical support was given by staff of the Massachusetts Division of Employment Security. Support from the Legislative Science Resource Office, the Department of Public Welfare, the Executive Office of Economic Affairs, the Division of Employment Security, the Executive Office for Administration and Finance, and Massport. National inputs from CONTROL 122480 from Data Resources Inc.

downward movement in Massachusetts' cost of doing business and from the high representation in industries that will be growing over that period. Another reason for expecting good performance is that high utilization of residential and nonresidential structures due to the growth in some parts of the state will stimulate the construction industry.

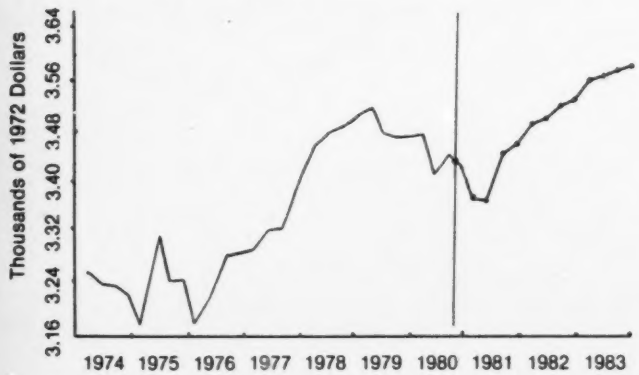
The introduction of Proposition 2½ was taken into account in making the MEPA forecast. It was assumed that some modification in the proposition would occur by fiscal 1983. The overall effect on the forecast was to reduce state and local government employment over the forecast horizon by somewhat more than private employment to be stimulated.

Graphical Representation of Selected MEPA Forecasts

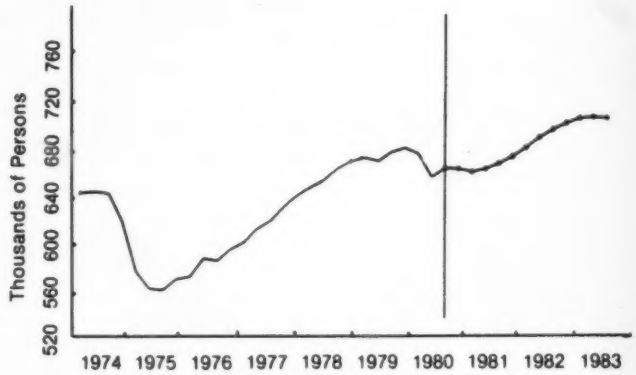
Unemployment Rate



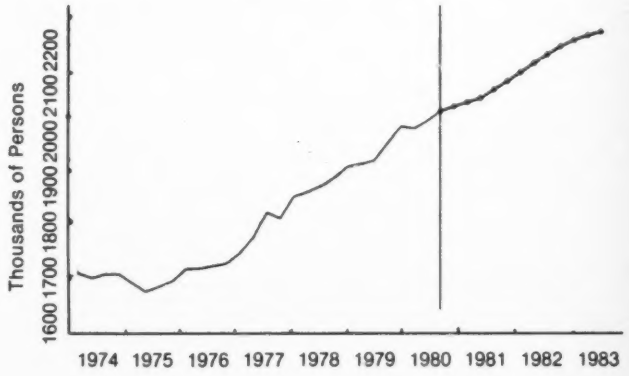
Real Per Capita Disposable Income



Manufacturing Employment



Non-Manufacturing Employment



Massachusetts
business and economic report

JANUARY CONTROL FORECAST

SUMMARY REPORT
MASSACHUSETTS ECONOMIC POLICY ANALYSIS MODEL (Seasonally Adjusted Annual Rates)

	1980	1981	1982	1980:4	1981:1	1981:2	1981:3	1981:4
Employment—Nonag. W. & S.	2665	2702	2780	2681	2688	2694	2704	2724
% Change	2.6	1.4	2.9	3.9	1.1	.8	1.5	3.0
Manufacturing	668	663	681	663	662	660	662	666
% Change	−.4	−.7	2.8	4.2	−.3	−1.4	1.4	2.4
Non-Manufacturing	1998	2040	2098	2018	2026	2034	2042	2058
% Change	3.6	2.1	2.9	3.8	1.6	1.6	1.5	3.2
Unemployment Rate	5.7	6.1	5.6	5.5	6.0	6.3	6.3	6.0
Employment Rate Index*	108.0	111.0	112.8	111.0	110.9	110.8	110.9	111.4
% Change	−.6	2.7	1.7	13.0	−.2	−.5	.4	1.8
Relative to U.S. Index*	106.2	109.4	109.7	109.5	109.4	109.4	109.3	109.5
Rate of Wage Change	7.6	9.4	10.4	10.1	7.3	9.9	11.7	10.3
Wage Index Rel. to U.S.*	93.6	94.0	94.0	93.7	93.8	93.9	94.0	94.1
Avg. Weekly Hours in Mfg.	40.0	40.2	40.4	40.1	40.1	40.1	40.2	40.3
Rate of Price Inflation	12.6	11.2	10.2	10.8	13.9	10.5	10.0	9.5
Relative to U.S. CPI*	95.9	95.6	95.4	95.8	95.8	95.7	95.5	95.3
Personal Income (mil$)	57396	63852	72671	59610	60981	62698	64837	66891
% Change	11.9	11.2	13.8	11.0	9.5	11.8	14.4	13.3
Disposable Income (mil$)	47837	53407	61194	49589	50684	52075	54600	56270
% Change	11.7	11.6	14.6	9.4	9.1	11.4	20.9	12.8
Real Per Cap. D.I. Index*	105.8	105.2	108.2	105.4	104.0	104.0	106.2	106.6
Relative to U.S.*	104.2	104.8	105.1	103.9	104.3	104.7	105.0	105.2
Rel. Business Cost Index*	96.0	96.1	95.9	96.2	96.1	96.1	96.1	96.1
Manufacturing*	96.1	95.9	95.8	96.0	95.9	95.9	95.9	95.9
Non-Manufacturing*	96.0	96.2	96.0	96.3	96.2	96.2	96.2	96.1

*Indexes equal 100 in calendar 1973.

Seminars on Business Ethics

Professor Sidney C. Sufrin of the School of Business Administration and Professor Vere Chappell of the Department of Philosophy have received a grant to conduct a series of two or three seminars for business managers on business ethics. There will be no charge for attendance. The seminars will be held in the Spring of 1981 at locations close to the participants. For further information, interested firms or nonprofit organizations are invited to write to Dr. Sidney C. Sufrin, School of Business Administration, University of Massachusetts, Amherst, MA 01003.

Massachusetts Business and Economic Report

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MASSACHUSETTS BUSINESS AND ECONOMIC REPORT

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Private Industry Councils— The Part of the CETA Program That Really Works

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and
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Introduction

Recently, when President Reagan released his "hit list" on budget cuts, noticeably absent was a relatively obscure portion of the CETA Program—Title VII, the Private Sector Initiative Program. To the casual observer, this seemingly minor point surely represents a budgetary technicality. But to economically disadvantaged workers in Massachusetts and throughout the country, this omission could spell the difference between continued unemployment and hardship and a meaningful career.* Moreover, the business community also suffers from the unemployment phenomenon. A recent survey of small business executives conducted by the First National Bank of Boston has determined that nearly one out of two firms are experiencing central labor market shortages of skilled production workers. The challenge of the Private Sector Initiative Program is to make both sides of the labor market function more smoothly by linking the unemployed with private sector employers.

Originally proposed by former President Carter in October 1979, the Private Sector Initiative Program was designed to forge a partnership between CETA and the private sector—especially the business community—in order to create jobs for the hard-to-employ. The Program recognizes increasing private sector needs for skilled and semi-skilled labor in the face of structural unemployment and underemployment. Explicitly, the Program requires the private sector to participate in the design of local manpower training programs, thus dramatically raising the likelihood of the Program's effectiveness and its access to private sector jobs.

Since the passage of Title VII, 460 Private Industry Councils (PICs) have been created across the country to implement the Private Sector Initiative Program. These PICs emphasize two economic goals:

- to secure more permanent jobs in the private sector for the economically disadvantaged who face special difficulties in entering the labor market;
- to attract greater and more effective private sector involvement in the public sector employment and training system.

To realize these goals, each PIC serves as the local business community's contact point with and advocate before the local public manpower agency. Moreover, PICs provide technical assistance to the business community by explaining the pros, cons and procedures of public training programs. Finally, PICs participate with the CETA prime sponsor (the agency responsible for the direct receipts and allocation of funds under all CETA programs) in the development and implementation of programs. In other words, each PIC is responsible for allocating the Title VII funds that the prime sponsor has received.

The CETA Title VII legislation gives the prime sponsor the authority to select and appoint the PIC's membership. The legislation also specifies which groups must be represented on the PIC with full voting status. They consist first and foremost of business sector representatives, followed by organized labor, community-based organizations, educational agencies, and other nonprofit institutions. Representation from the private sector must constitute a majority of the PIC. Further, no fewer than one-half of the private sector representatives must be from small businesses. Minority businesses must also participate.

*Only about 4% of all CETA funds go to private sector job training. Most CETA monies have paid for subsidized public jobs. Statistics show that neither the long-term employability of individuals nor the economy as a whole has significantly benefited from these massive public sector expenditures. Fortunately, these are the large dollar components that the President has wisely chosen to eliminate.

Thus far, this approach to job training (and retraining as well) appears to be working. In Massachusetts alone, approximately 2,000 individuals have received training through the Private Sector Initiative Program, most of whom are now productively employed in their local labor markets. The results from other states have been similarly encouraging. Because of this encouraging record, President Reagan has wisely decided to continue this important program.

The Massachusetts PICs

Massachusetts responded to the Title VII initative by organizing ten PICs within the purview of the state's ten Prime Sponsors—Boston, Hamden County, Worcester, New Bedford, Fall River, Pittsfield area, Lowell, Salem, Middlesex County and the Balance of State (for all remaining cities and towns). At this writing, representatives from a wide range of public and private institutions are actively donating their professional skills to enhance labor training in the Commonwealth. Although each PIC has had considerable freedom to develop its own unique approach to employment problems in its labor market area, some generalizations can be made.

For example, each PIC has either conducted or obtained a survey on the short- and long-range employment demands of the local business sector. Accordingly, each PIC has developed criteria for the types of occupations selected for training programs. A number of PICs have developed their own training standards and curricula for specific occupations and have assessed existing employment and training systems. Finally, five of the PICs have chosen to incorporate, enabling them to directly administer and operate a much greater diversity of training programs and projects funded by nongovernmental sources. The following project descriptions illustrate the diversity of PIC activities in the Commonwealth.

In the summer of 1980, the Balance of State PIC, in conjunction wit the Balance of State Prime Sponsor and the Massachusetts Board of Regional Colleges, initiated the "Hi-Tech Prep" project. In addition to imparting high technology-related skills to CETA-eligible trainees throughout Massachusetts, the project forged valuable ties between CETA and the Community College System, thus, enabling the latter to marshal some of its excess-program capacity for training. To date, 189 Massachusetts residents have participated in the program and are now productively employed in the labor market.

The Balance of State PIC has also helped fund and develop the Jobs for Bay State Graduates (JBSG) program. The program is part of a national effort designed to test the transferability of the successful Jobs for Delaware Graduates program. This program is being implemented by the Council for Northeast Economic Action. Its purpose is to provide high school seniors who are least likely to find employment upon graduation with employability skills, career awareness, job placement and up to nine months of counseling support after employment. The JBSG program is now developing strong operational roots in four high schools in Massachusetts—Taunton, Quincy, Falmouth, and Cathedral High School in Boston. Approximately 300 seniors are participating.

To strengthen the partnership between business and government in Boston, the Boston PIC has developed a special marketing strategy. Targeted firms receive packets of brochures that describe the PIC's incentive programs and their four principal objectives:

- to increase the private sector's involvement in publicly financed employment and training programs;
- to improve the employment and training system's responses to the needs of both industry and the economically disadvantaged;
- to provide good jobs for Boston's economically disadvantaged residents;
- to improve the local investment climate and increase coordination between employment and training and economic development.

The Boston PIC has taken on as its broad mandate the facilitation of economic development in the City. Accordingly, the PIC alerts companies to the variety of available capital sources, employment and training resources, and tax incentives.

Employing a study which identified labor shortages in the Worcester labor market, the Worcester PIC has funded skills training programs for electronics technicians, computer programmers and machinists. Each of these occupations is forecasted to be in high demand in the foreseeable future. The Worcester PIC has also funded an organization called Worcester Training Opportunities in the Private Sector, Inc. (WTOPSI), which provides a Targeted Jobs Tax Credit Program hotline. The WTOPSI staff accountant offers technical assistance to area employers on the "how to's" of the tax credit. Impressively, Worcester has the highest number of TJTC placements in the New England.

In Hamden County, the PIC works in close cooperation with the newly established Mayor's Commission on Technical Education and Training. While the PIC provides labor market information on the employment needs of the industrial community, the Mayor's Commission cooperates with the secondary schools, the community colleges and the Hamden County Skills Center to facilitate programs that address the personnel requirements of local industries. Through the combined efforts of the PIC and the Mayor's Commission, the greater Springfield business community receives assurances of available manpower for both the short and long term.

The Real Value of the PICs: Business Involvement in Labor Training

The invaluable by-product of PICs is the business community's increased involvement in improving government manpower programs—making them more responsive to private industry's needs while securing jobs for the disadvantaged and the unemployed. As the effects of Proposition 2½ are felt in Massachusetts, the private sector's increased involvement and concern will be crucial. Without cooperation between the public and private sectors, the effects of the 2½ cutbacks could be devastating.

PICs should ultimately demonstrate that public-private cooperation can produce more efficient and effective placement of the unemployed. Costs per placement should

decline, and the quality of jobs secured should improve. Thus, all of us will be getting a higher payout for each Federal training dollar. In addition, public-private partnerships should help meet the needs of individuals who would not otherwise find employment.

Finally, the potential of the PICs is great. Indeed, there is considerable discussion in Washington that their programming responsibilities and funding should be increased over the next several years. This simply reflects the reality that PICs are that part of the CETA program that really works. As they assume new responsibilities, PICs must maintain their integrity by operating in areas where they fulfill their training mandate, thereby avoiding the common criticism of being "just another public program." Ultimately, we are fully confident that PICs will achieve their highest goals.

Strategic Marketing Planning Seminar

On June 10, 1981 the School of Business Administration will present an intensive one-day seminar devoted to strategic marketing planning. Designed for marketing managers with planning responsibilities, the seminar will examine such topics as environmental influences that shape market opportunities; assessment of product strengths and weaknesses; and deployment of useful strategic marketing tools. The seminar will take place at the Sheraton Inn in West Springfield. For further information contact the School of Business Management Development Programs Office at (413) 549-4930, ext. 216.

Chamber of Commerce School of Business Synergy

H. Richard Hartzler
Professor of General Business and Finance
University of Massachusetts/Amherst

Introduction

Business and governments are not merely product and service oriented. They are information oriented as well. Businesses and governments generate and use so much knowledge that our economy has been called "an information economy."[1] Sometimes, the educational role played by local chambers of commerce goes unrecognized. These organizations conduct studies and disseminate information about the economy, business, and government-business relationships. Further, they assemble and use information to promote the economic well-being of their communities; but more, they look for effective ways to maintain and improve the quality of community life, to create new community images, to foster political awareness and involvement and to enhance human resources as concomitants of industrial and commercial development. Chambers of commerce have consistently contributed to the impressive growth of human knowledge.

Universities house centers for the study of the same phenomena. Among these are Schools of Business and Public Administration, or Schools of Management, as they are increasingly becoming known. The role of universities goes well beyond classroom education. They are repositories for cultural and technical information which serve a broad range of community needs. They are centers for basic research and forums for ideas that change the course of society. The missions of a school of business and public administration (or school of management) are to develop knowledge in business administration and in the policy sciences, and to improve the management of public and private organizations through effective education, research and public service.

Cooperation

Business managers should look to universities for a variety of services, and, through chambers of commerce, should take the lead by working with faculty members to determine how the business community can support their schools' missions. No altruistic exercise is being suggested. The process should have basic economic development aims. By strengthening institutions of higher learning, chambers can begin to tap one of society's most valuable resources.

Chambers study relationships between the quality of life and economic development. They are learning that economic development first requires enhancement of the quality of community life. Recently, in a government study, the Joint Economic Committee of the United States Congress observed that the quality of life in a community is perceived by corporate decision makers to be more important in expansion or relocation decisions than are the typical business-related factors.[2] Of the seven variables that respondents considered most important, six reflect community rather than business attributes. The seven variables include the following:

1. City government attitudes toward business
2. Crime level
3. Adequacy of public facilities
4. Market demand for product or service
5. Adequacy of public services
6. Quality of city's schools
7. Cultural attractions.

Tax rates, business costs and labor factors were not viewed as important as quality of life characteristics. However, the report generalized that the perceived business climate of a community closely parallels its perceived quality of life. This and similar studies are making chambers of commerce more aware that the most efficient course to future economic development is marked by heightened political involvement, better educational opportunities and a host of other non-business factors.[3]

To enhance the quality of life, universities must be available to provide all segments of society with high quality service. Education is essential to ensure a high quality labor pool for business and government. Chambers are learning that community residents are their most valuable resources.

As a base for human resource development, chambers should conduct surveys that determine the range and level of skills that are available and needed in the work force. Schools of business are best suited to conduct these studies. Through these and similar studies, universities can contribute directly to economic development. Moreover, a community's quality of life is enhanced by its university's role as a center of culture.

Cooperative university-chamber institutional arrangements can strengthen the effectiveness of each in endeavors of mutual concern. Schools of business should help meet chamber-directed applied research needs in return for chamber support of basic research and its longer run benefits.

Chambers can both promote and directly participate in education. They can form close liaisons with their communities' educational institutions to ensure that students receive the best education possible. They can support institutions of higher learning by making strong pre-education presentations at hearings and meetings. They can work closely with municipalities, businesses and university schools of business and public administration to promote and participate in regional development planning. They can commission university studies on a range of subjects related to economic development and community well-being (for example, surveys that determine the role of newcomers in the community's economy).

Chambers can improve business education through a variety of activities. They can meet with faculty and administrators to ascertain current plans and to determine where the chamber can best lend its support. They can develop a strategy to lobby for appropriate funding for universities. They can establish a speakers bureau and encourage its use by business faculties.

Chambers can design and implement a campaign that urges chamber members to use schools of business and public administration for research studies. They can encourage students to pursue careers in local businesses and governments by establishing internship programs in cooperaiton with those at universities. Finally, they can provide university scholars with much otherwise unavailable information.

Conclusions

Schools of business and chambers of commerce coexist in an information economy and are engaged in teaching, research and service missions over the same ground. Universities have skilled researchers whose activities can directly benefit chamber members, and chambers of commerce are entry ways to knowledge and offer resources sought by faculty scholars. Both universities and chambers generate and consume knowledge. Through cooperation, each can better fulfill its missions and enhance the quality of life within its community.

End Notes

1. Pogrow, Stanley, "In an Information Economy, Universities and Businesses Compete for Workers" *Chronicle of Higher Education*, Vol. 22 no. 4 (March 16, 1981) p. 64.
2. *Central City Business Plans and Problems*, Government Printing Office, Washington, D.C.
3. *Anchors Aweigh, Anchorage: A Charted Course for Commerce*, Anchorage Chamber of Commerce, Anchorage, Alaska, (December, 1980). This report is the basis for much of the content of this article.

The April 1981 Massachusetts Economic Policy Analysis (MEPA) Model Forecast

by George Treyz and Roy Williams*

Revised employment data just issued by the Massachusetts Division of Employment Security show that the 1980 Massachusetts recession was concentrated in the second and third quarters of 1980. The figures now indicate that the recession hit nonmanufacturing as well as manufacturing employment. However, they continue to show that Massachusetts had a much milder recession than the rest of the United States. Current data also indicate that Massachusetts employment has grown in the last two quarters.

Since our January forecast the U.S. forecast by Data Resources, Inc. has become much more optimistic. Its forecast for real GNP in 1983 has increased by over five percent in the last three months.

The MEPA model predicts slow growth for 1981 followed by faster growth in the next two years. During 1981 the only quarter forecast to have negative employment growth is the third quarter, when the employment effects of Proposition 2½ will be more pronounced. Given the more optimistic U.S. forecast, growth for Massachusetts is also forecast to be higher than it was in our January forecast. We know predict that the Massachusetts unemployment rate will hover just below 6% in 1981 and then gradually decline to below 5% by 1983.

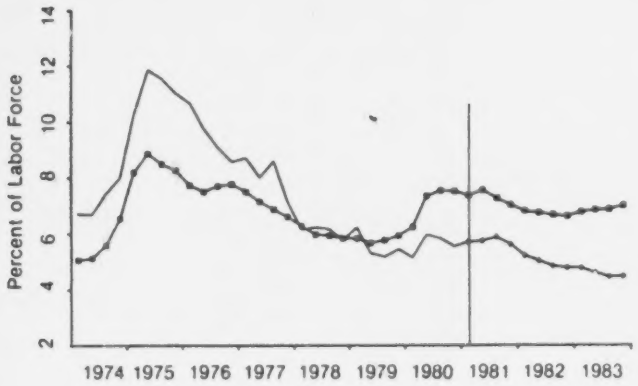
Inflation is forecast to decline slowly from above 10% in 1981 to lower than 9% by 1983. However, the rate of wage increase is forecast to be slightly lower than the inflation rate, thus leading to small continuing declines in real wages. However, decline in real wages is more than offset by higher employment relative to our population. This, in turn, leads to increases in real per capita income over the forecast horizon.

In summary, the forecast shows a Massachusetts economy roughly on hold during 1981 with employment growing just rapidly enough to absorb increases in the labor force. In 1982 and 1983 the pace may pick up a bit with durable manufacturing and services leading the way, and with construction and other nonmanufacturing following as the Massachusetts economy expands.

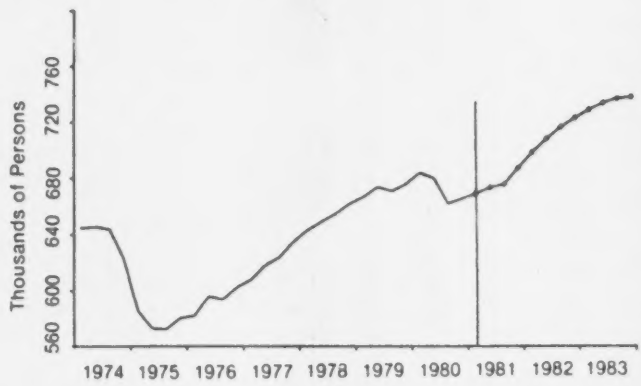
*Director and Associate Director, respectively, of the MEPA project, Economics Department, University of Massachusetts, Amherst, MA 01003. (Tel. 413-545-0915). Technical support was given by staff of the Massachusetts Division of Employment Security. Support from the Legislative Science Resource Office, the Department of Public Welfare, the Executive Office of Economic Affairs, the Division of Employment Security, the Executive Office for Administration and Finance, and Massport. National inputs from CONTROL 032381 from Data Resources, Inc.

Graphical Representation of Selected MEPA Forecasts

Unemployment Rate — Mass. ●● U.S.

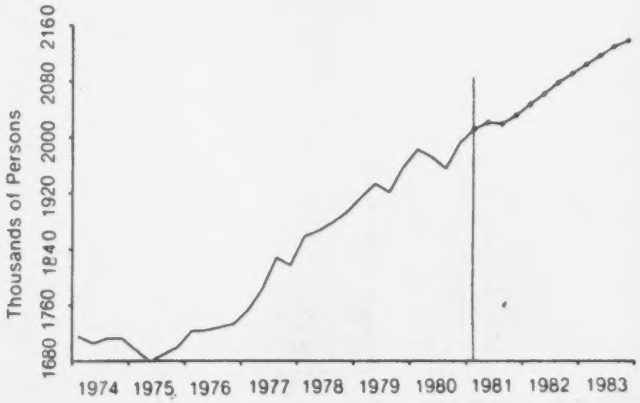


Manufacturing Employment



Real Per Capita Disposable Income

Non-Manufacturing Employment



Erratum Note

We wish to correct the following editorial error that appeared in M.A. Adelman's article, *Oil and the Energy Problem*, in the Winter 1981 issue of the *Report*. The sentence which begins on page two, column two, line one should read "The income tax, individual and corporate, would take more than half of these windfall gains." It should be followed by the following sentence: "So price control really amounts to this: we the people give up our half of the windfall in order to deprive the detested oilman of his half."

April Control Forecast

Summary Report
Massachusetts Economic Policy Analysis Model
(Seasonally Adjusted Annual Rates)

	1980	1981	1982	1981:1	1981:2	1981:3	1981:4	1982:1
Employment—Nonag. W. & S.	2648	2698	2781	2681	2695	2695	2719	2746
% Change	1.7	1.9	3.1	3.5	2.1	-.0	3.6	3.9
Manufacturing	673	677	712	670	674	676	688	699
% Change	.2	.5	5.2	2.3	2.6	1.3	7.1	6.7
Non-Manufacturing	1975	2021	2069	2011	2021	2019	2032	2047
% Change	2.3	2.3	2.4	4.0	2.0	-.5	2.5	3.0
Unemployment Rate	5.6	5.7	5.0	5.7	5.7	5.9	5.6	5.2
Rate of Wage Change	9.0	9.7	8.8	8.9	8.7	9.1	9.1	9.2
Wage Index Rel. to U.S.*	93.8	94.4	94.9	94.1	94.3	94.5	94.6	94.7
Avg. Weekly Hours in Mfg.	39.8	40.3	40.6	40.1	40.2	40.3	40.4	40.5
Rate of Price Inflation	12.7	11.3	9.6	17.1	7.3	8.3	9.8	10.2
Relative to U.S. CPI*	95.9	96.7	96.8	97.1	96.5	96.4	96.6	96.7
Personal Income (mil$)	57567	64594	72388	61911	63585	65491	67388	69293
% Change	12.2	12.2	12.1	12.8	11.3	12.5	12.1	11.8
Disposable Income (mil$)	48163	53914	60757	51546	52878	54464	56771	58260
% Change	12.1	11.9	12.7	11.3	10.7	12.5	18.0	10.9
Real Per Cap. D.I. Index*	106.5	106.2	108.1	104.9	105.5	106.3	108.0	107.9
Relative to U.S.*	103.3	103.2	103.5	102.5	103.4	103.5	103.5	103.5
Rel. Business Cost Index*	97.1	97.5	97.7	97.4	97.4	97.5	97.6	97.6
Manufacturing*	96.1	95.8	96.0	95.7	95.7	95.8	95.8	95.9
Non-Manufacturing*	97.6	98.3	98.5	98.2	98.2	98.3	98.3	98.4

*Indexes equal 100 in calendar 1973.

Massachusetts Business and Economic Report

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MASSACHUSETTS BUSINESS AND ECONOMIC REPORT

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Prop 2 1/2 as a First Step

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The majority of the taxpayers of Massachusetts make the point that Massachusetts is the land of high taxes — Taxachusetts is the dolorous synonym for the Commonwealth. Proposition 2 1/2 with its caps on the effective property tax rate and on local property tax growth was a result of the high tax syndrome.

In fact, there is some basis for the contention that Massachusetts is a relatively high tax state (Table I). There is also evidence that public spending, both state and local, is, on a per capita basis, higher in the Commonwealth than in the similar states* that provide the basis for our comparisons (Table II).

This may mean that Massachusetts offers more public services to its "constituencies" than do other states similar to the Commonwealth. It might mean that Massachusetts is less efficient. It might mean both. One has no way of knowing for sure, but the evidence does suggest that Massachusetts provides many public conveniences.

The most striking feature of the Commonwealth's revenue structure is its heavy dependancy upon the property tax. In Massachusetts the property tax generates 46.4 percent of all state and local tax revenues. Among the other states in our comparative study, only New Jersey (47.4 percent) and Connecticut (45 percent) have a similar high dependancy on the property tax.+ Massachusetts raised only 10 percent of its tax revenue through general sales; the lowest proportion among the states exhibited in Table I. (The nation as a whole depends on sales taxes for nearly 23 percent of all state and local taxes.) The Commonwealth relied upon income taxation, both personal and corporate, to the same extent (31 percent) as did similar states, excluding Connecticut and New Jersey. It seems that in the post-Prop 2 1/2 era, the Commonwealth should probably diversify its revenue structure.

Before the passage of Proposition 2 1/2, Massachusetts had a high level of public spending. The range and scope of public services provided to its citizens continue to surpass those of many other states; only New York spends more per capita in the public sector, and only California and Michigan even approximate the Commonwealth's per capita expenditures ($1677.74 per capita). The major aspect of the expenditure structure in Massachusetts is the dominance of public welfare outlays in the state. The Commonwealth spends a full *50 percent more* per capita on welfare than the national average. Massachusetts equals the national average for expenditures on education and on health and hospitals. Massachusetts spends *twice* the national average for fire protection.

A good tax system, it is generally argued, should be certain — that is, the taxpayer should easily know or be able to figure his or her liability; progressive, that is, based upon ability to pay; equitable in the sense that persons and enterprises which are substantially similar should have substantially similar tax liabilities; convenient, that is, fit into the normal course of business; economical, that is, not be an undue burden on doing business; and easy to administer.

Unlike taxes on income or its uses, property taxes, especially on households but also on business, do not meet all of these common sense criteria. All tax payments represent diversions of income. Even when a property is sold, its value is converted to cash or to a claim that represents income in some sense. In the extreme case, a property is sold with the proceeds being used to buy another property. Here a case could be made that the income aspect is of such short duration that it scarcely represents a cash flow. And the tax law makes a distinction between capital gain and selling price. But no householders or firms sell off their real property every year, converting the capital gain to tax payment. Yet this kind of logic pervades property tax justification. In truth

*The similiar states are: California, Connecticut, Michigan, New Jersey, New York, Pennsylvania. These states were selected for comparison based on geographical location and industrial structure.

+ When these data were collected in 1979, New Jersey was initiating an individual income tax to lower property taxes. Connecticut has yet to adopt a personal income tax.

Table I Revenue of State and Local Government by Source, 1978-79

	From Federal Gov't	From Own Sources	Taxes	Property	General—Sales	Motor—Fuels, Vehicle, License	Income—Individual, Corporate	Current Charges
CONN	362.05	1378.61	1057.87	266.30	304.02	57.20	314.30	198.16
CONN	299.90	1213.90	1012.97	456.40	236.31	75.22	101.00	109.31
MASS	447.39	1384.90	1176.41	545.97	124.51	48.50	366.56	136.87
MICH	369.26	1380.50	1049.58	375.87	184.94	82.13	342.77	221.23
NJ	292.80	1310.28	1067.47	505.99	149.77	73.23	177.03	161.82
NY	458.69	1665.51	1369.61	481.89	256.66	48.50	435.57	183.06
PENN	295.33	1139.67	921.37	229.77	161.58	69.71	278.78	125.45
US	341.50	1218.15	933.74	295.07	211.53	69.26	222.90	179.32

Source: US Bureau of Census, *Governmental Finances in 1978-1979*, Series GF79, No. 5, US Government Printing Office,Washington DC, 1980.

TABLE II Per Capita State and Local Government Expenditure by Function, 1978-1979

	Total General Expend.	Education	Public Welfare	Health & Hospital	Highways	Police	Fire	Interest on General Debt
CALIF	1651.28	572.90	268.87	138.40	78.47	71.57	32.72	34.02
CONN	1409.70	498.23	190.82	83.69	99.07	53.93	32.17	82.05
MASS	1677.74	547.43	273.91	130.01	99.19	62.40	49.44	73.39
MICH	1670.91	634.39	256.62	155.14	114.71	67.36	24.75	53.38
NJ	1574.30	570.19	191.56	90.21	98.04	66.39	25.26	73.96
NY	1974.99	599.94	302.97	182.67	113.64	79.57	31.69	143.29
PENN	1355.46	477.46	224.82	94.45	89.19	49.10	13.53	81.31
US	1481.26	542.70	183.64	128.20	129.22	55.46	23.38	59.01

Source: US Bureau of the Census, *Governmental Finances in 1978-1979*, Series GF79, No. 5, US Government Printing Office. Washington, DC, 1980.

real property may be a necessary *basis* for earning income. A firm needs a place to do business, offices, factories, and so on. A family needs housing to protect the wage earner and the other family members. But houses are also necessities to retired people, students and other nonworkers. It is difficult to measure the contribution of shelter to the earnings of a household. It is also difficult to estimate the contribution of an office or factory to the income produced by a company. Yet, even though they are officially assessed against wealth, property taxes, so significant in the Commonwealth, are a constant charge against income.

Taxes assessed against the dynamics of economic activity such as sales or income taxes stand in sharp contrast to taxes on property (wealth). The former tend to meet the criteria we suggested earlier, while the latter do not. In a sense, a general sales tax is a tax on the use of income, and as such may be thought to have some of the beneficial features of the income tax.

The Commonwealth through its citizens seems to have several preferences in taxes. First and foremost Massachusetts taxpayers cried "Halt!" to the expansion of property taxes, which are essentially local. The cry of "Halt" was the passage of Proposition 2 1/2, which not only put a cap on property taxes at 2 1/2% of fair market value, an effective tax rate, but also restrained the increase in taxes (set at 2 1/2%) that might have come about by reassessments, and on increases in the tax take from new building. But the preference, in its simplest form, seems to say "Contain property taxes!" The second preference that taxpayers in the Commonwealth seem to hold is that progressive income taxes are undesirable. As an observer, one may point out that the income tax structure of the U.S., both national and state, probably is not as progressive as is generally believed. The so-called loopholes, administrative interpretations and exemptions, in general, tend to reduce the progressive aspects of progressive income taxes in practice.

The passage of Proposition 2 1/2, without the provision of alternative local taxes, results in the need for state and local communities to rethink their priorities in governmental services. It is estimated that the loss in local revenue in fiscal 1982 is of the order of $500 million. The 1981-82 state budget provides $221 million to be distributed to local communities. This amount does not equal the loss in local revenue, but leaves a shortfall about $220 million.*

The tone and temper of taxpayers, as voters, is opposed to any levy of new taxes, at least right now. The legislature and administration reflect perceived voter (taxpayer) attitudes. Recent attitudes and results point to the following trends:

(1) Taxation and hence political power or authority have shifted in part to the State Legislature as a result of the tax cap on localities.

*The formula for the State aid program for 1981-2 comprised the traditional formulas plus an increment of from 2% to 6 % of the loss in local income due to Proposition 2 1/2.

(2) The localities will have to reconsider their expenditure priorities. The obvious places to cut — schools, police, fire — may not be the functions to curtail.
(3) The legislature and administration will have to reconsider the allocations of state aid to localities based upon some measure of local social need.
(4) Items (2) and (3) above will require joint consideration between state and local units since the needs and resources of the various localities differ.
(5) The preceding observations do not necessarily presuppose any new tax levies, state or local. But the commitments of both the state and localities to welfare, schooling, fire protection, police, and health, etc. are so powerful and pervasive in Massachusetts that any curtailment sufficient to release large sums of money is most unlikely. To be sure the restriction — legislated, psychological, or political — of revenue will or at least should engender efficiencies and administrative reform. However, it is most unlikely that efficiences and administrative reform will provide sufficient funds to maintain the end products of social benefit and welfare envisaged in previous budgets. Therefore, new sources of revenue must be sought to secure the Commonwealth's customary level of adequate services. The restraints implicit in Prop 2 1/2 probably will place new tax considerations before the State Legislature. Even a reform of Prop 2 1/2 would have to originate in the Legislature.
(6) If our assumptions about the passage of a progressive income tax are valid, there still is no inhibition on raising the effective rates on the present non-progressive income taxes. Nor is there any inhibition in our argument against levying additional sales taxes. Prop 2 1/2 has reduced the burden of property taxes, bringing them into greater conformity with similar states. The logic of this reduction might suggest the raising of sales taxes to the approximate level of these states.
(7) A suggestive approach might be to consider a variety of taxes which, in their various alternatives, would about equal the tax burdens as borne by the states similar to Massachusetts.
(8) One consideration might be to capitalize the benefits of Prop 2 1/2 to industry and business and to add this to the assessment of the firm's real property. This would require a change in Prop 2 1/2, but not a change affecting households. The dollar benefits of Prop 2 1/2 to a business would be reduced by any additional expenditures undertaken by the firm as a result of the curtailment of local services as a result of Prop 2 1/2. This reduction would occur by the addition of expenses as costs of doing business. If a firm had to increase its security, e.g., police, fire services, or water purification, the net income of the firm would be reduced. When and if the locality again provided such services, net income would be enhanced.

Insofar as Prop 2 1/2 increases the net return to capital, economic theory argues that profits will be increased, and capital will flow into Massachusetts. The inflow of capital would, according to the theory, reduce profits and lower prices. For this to occur the inflow of capital would have to be sensitive to fairly small differences in profits.

In our opinion, Prop 2 1/2 will not attract much capital investment to the Commonwealth. To be sure, some firms may expand their operations or even move to Massachusetts as a result of Prop 2 1/2 (being blind to the costs which Prop 2 1/2 might impose and the tax charges it might generate). But, on the whole, Prop 2 1/2 is unlikely to profoundly affect capital investment inside the Commonwealth. The investment market's futurity is neither so efficient nor certain that investments follow miniscule profit advantages.

Industry, especially new industry, is more likely to move to geographic areas and undertake activities that hold out promises of relatively high and long term profits. Prop 2 1/2, as we have argued, is unlikely to create this atmosphere. Finally, any strategic planner would have to take into account the traditional biases that Massachusetts voters and political parties have for social activities. A good guess is that Prop 2 1/2 is but a step toward a new fiscal and possibly political restructuring of the Commonwealth.

Sophisticated Political Action Benefits Business

by George Schwartz
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UMass/Amherst

In the brief period that President Reagan has held office, his Administration's major thrusts toward smaller government, less regulation, and tax reduction have created euphoria in various business circles. The President's program, trumpeted under the slogan, "A New Beginning," represents the first major attempt to reverse significantly the course of government initiated by Franklin Roosevelt's New Deal almost a half century ago.

While it is likely that this program will achieve significant success in reducing government's negative impact on business, the fact remains that even under a Reagan Administration the federal government will continue to regulate business in many vital ways, and powerful forces in and out of the Congress and the federal bureaucracy will periodically press for additional constraints on business. Moreover, the 1982 Congressional elections could return the Senate to Democratic control, and increase the Democratic majority in the House of Representatives — a development which would make implementation of the Reagan program more difficult.

Under these circumstances veteran observers in the ranks of business are tempering their euphoria and counseling against dismantling the effective apparatus that business has developed for influencing government. Though not always successful, this apparatus has achieved a degree of sophistication in the areas of political intelligence, organization, strategy, and tactics so

that business' ability to influence the federal government now compares favorably with that of any other major special interest group in the country.

This capability, which is of relatively recent origin, did not develop until many top corporate executives realized that government intervention was increasingly constraining their ability to operate viable enterprises, and that the firm, rather than merely adapt, needed to promote its interests by becoming involved in the political process. Once this awareness was achieved, the resources and talent needed to build an effective apparatus for influencing government were allocated in many firms, industry trade associations, and national general business organizations.

It is the rare large corporation that does not have a government relations department and is not represented in the nation's capital by a Washington representative and staff. To learn of any contemplated administrative action or legislation affecting their company, the Washington staff is responsible for monitoring both the Congress and federal regulatory agencies which impact on their firms. In-house talent, including the Chief Executive Officer, as well as outside consultants, if needed, are used to influence legislators and agency officials.

Industry trade associations often perform similar functions, but focus primarily on issues on which the bulk of their member firms are in agreement. National general business organizations such as the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable tend to concentrate on issues that affect business across the board, such as those concerning the environment, occupational safety and health, investment tax credits, and accelerated depreciation.

In recent years, these business efforts to influence the federal government have achieved some major successes such as the defeat of bills to establish a federal Consumer Protection Agency, to permit the closing down of large construction projects even if only one craft went out on strike, and to reform labor legislation. Such business successes are due in large measure to the effective organization and coordination of the business effort, as well as to the use of skillful strategies and tactics.

Promoters of business interests know how the federal government operates, the crucial steps in the formulation and execution of public policy, and the individuals who are important decision makers in the policy process. In the legislative area, for example, business proponents employ diverse strategies and tactics to further business interests. Since persuasion is the major tactic of lobbying, business representatives continually develop relationships with people in power to more readily present them with the business point of view. On major issues such as the Consumer Protection Agency proposal, coalitions are typically used to help plan and coordinate the lobbying efforts of all firms and organizations seeking the same result. When business does not have the votes to defeat a legislative proposal, it employs strategies of delay such as the engineering of Senate filibusters, or the prevention of a House vote by stymieing a bill in the Rules Committee. Conversely, when business does have the votes in Congress, but expects a Presidential veto, business interests will attempt to veto-proof the bill by making it part of another legislative proposal strongly favored by the President.

Business strategists know full well that constituent opinion is important in influencing legislators who are constantly aware of the approach of the next election. For this reason they typically seek grass roots support by attempting to shape public opinion using all media of communications including newspapers and magazines, radio and television, films, interviews and speeches. Additionally, business strategists hire public relations firms to prepare news releases and editorials for distribution to small publications, which often publish copy without indicating the source. Public opinion research is used to measure the impact of these efforts to influence and shape public opinion.

Another useful grass roots mobilization tactic is used by the U.S. Chamber of Commerce, which develops and identifies key resource personnel (KRP) throughout the United States. A KPR is a member of the Chamber who has direct access to a representative or senator. This access may be derived from personal friendship, large campaign contributions, or family relations. The Chamber's strategy is to use these relationships to gain access to legislators, and a friendly hearing for business' point of view.

When necessary, business influence is also focussed on the President. While the President is, of course, not easily accessible, his principal assistants are often available to representatives of major firms or business organizations. Access to these assistants can usually be arranged through the designated liaison person on the White House staff.

Business political action is not restricted to influencing the development and execution of law and public policy. It also seeks to influence the selection, nomination, and election of government officials and members of the judiciary. A major device in this effort is the Political Action Committee (PAC). While it is illegal to contribute corporate funds to political campaigns, a company may form a PAC to solicit funds from employees to be used for this and other politcal purposes. Typically, PAC contributions to political campaigns aim to aid the election of legislators friendly to business, a particular industry, or a specific firm; make a favorable impression on a powerful legislator; or help develop relationships that will enable corporate representatives to have better access to legislators. PACs often contribute to candidates of both major political parties.

Not only do business strategists develop and use appropriate political strategies and tactics, but they are also sensitive to changing intergovernmental relations and responsibilities. In this connection close attention is being paid to the implications for state government of the President's program to reduce the power of the federal government. This element of his program is known as the "New Federalism" and involves sloughing off those functions currently performed by the federal government which the President asserts should either not be performed by government at all, or should be the responsibility of either state or local governments. To the extent that the President's "New Federalism" shifts reg-

ulatory functions that significantly influence business to state and local government, political activities by business at these governmental levels must be brought up to the strength and sophistication of those practiced on the federal scene.

The July 1981 Massachusetts Economic Policy Analysis (MEPA) Long Range Model Forecast

by
George Treyz and Roy E. Williams*

In this report we will present a long range forecast for Massachusetts in addition to our usual short term forecast. The outlook for the Massachusetts economy in 1981 is for employment growth at about the same rate as growth in the labor force. This should mean an unemployment rate near six percent for the rest of the year. In 1982 and 1983 employment is forecast to grow slightly more than the labor force. This leads to a decrease in the predicted unemployment rate to 5 percent by 1983.

Recently released data show that Massachusetts wage and salary disbursements at the end of 1980 grew more slowly than employment gains in that quarter would have led us to expect. This is due to the persistence of a slower rate of wage growth in Massachusetts than in the nation. In this forecast, as inflation decelerates from a 1981 rate of 10.9 percent to a 1983 rate of 7.9 percent, it is predicted that real per-capita disposable income will increase by about six percent during these three years.

The long range forecast shows continued but decelerating growth for Massachusetts over the longer term. The growth in the early part of the 1980's stems from continued expansion of industries in which Massachusetts has a more than proportionate representation and from a continuing response to the substantial reduction in Massachusetts' relative production costs in the late 70's and early 80's. This reduction in relative costs is mainly due to lower wage growth in Massachusetts than in the rest of the United States in the period since 1975. After the above factors have run their course, Massachusetts is forecast to resume its decline in employment, population and aggregate real income relative to the rest of the United States. However, these declines are forecast to be at much slower rates than in the last three decades, so that real per capita incomes relative to the U.S. will decline only slightly.

By the 1993-95 period real disposable income per capita in Massachusetts is predicted to be 15.6 percent higher than in the 1978-80 period, a relatively slow growth rate by historical standards. Real income per worker increases only 5.5 percent, while the rest of the per capita growth reflects a nine percent increase over the period in the proportion of workers in the over-fifteen population (the "employment rate"). This slowdown in growth reflects a slowdown in the national economy. Even though DRI forecasts some improvement in productivity growth compared with the dismal record of the seventies, the growth in real GNP is forecast to be very slow, primarily for demographic reasons. Since the post-war baby boom cohort has nearly finished entering the labor force, the most important constraint on economic growth is expected to become labor supply.

The long-term forecast for Massachusetts shows no future recessions explicitily because it is based on a trend national forecast rather than on one that predicts possible future recessions. DRI describes its TREND-LONG forecast as "depicting the *mean* of possible paths that the economy would follow if subject to no major disruptions." This description applies as well to the MEPA forecast for Massachusetts. We will undoubtedly experience future cyclical episodes but it would not be realistic to attempt to predict their timing and magnitude.

Since the early decades of this century, Massachusetts has been undergoing a metamorphosis as the textile and apparel and leather goods industries have left and other industries have grown in relative importance. This transformation has accelerated in the last two decades. Over that period nonelectrical machinery and instruments exports have increased from about ten percent of Massachusetts exports to the rest of the U.S. to over fourteen percent at present. Retail trade and services have also grown as a proportion of the Massachusetts economy. At the same time the nondurable goods industries of Food Processing, Textiles, Apparel, Paper, Rubber and Leather have all decreased substantially as shares of the Massachusetts export base.

One of the consequences of this change has been to make the Massachusetts economy slightly less sensitive to cyclical dips than it used to be. Computer simulations carried out by the MEPA project show that despite the conventional wisdom that durable goods industries are cyclically sensitive, the Massachusetts economy would have experienced declines about ten percent less severe during national recessions in the last decades if we had had our current industry mix instead of the one more weighted toward nondurables that we actually had.

Finally, it should be noted that long range forecasting pushes the techniques used in computerized forecasting to their extreme. Unforeseen events in the past such as the energy price shocks of the last decade have reshaped our economy dramatically. It is not unlikely that some unexpected future development or event will have a substantial effect on the Massachusetts economy. Thus, this forecast should be used as a baseline guide to what the future would look like in the unlikely case that nothing unusual happens between now and 1995.

*Director and Associate Director, respectively, of the MEPA project. Economics Department, University of Massachusetts, Amherst, MA 01003. (Tel. 413-545-0915). Technical support was given by staff of the Massachusetts Division of Employment Security. Support from the Legislative Science Resource Office, the Department of Public Welfare, the Executive Office of Economic Affairs, the Division of Employment Security, the Executive Office for Administration and Finance, and Massport. National Inouts from CONTROL052581 and from TRENDLONG0681 from Data Resources, Inc.

July Long-Range Forecast

Summary Report
Massachusetts Economic Policy Analysis Model
(Seasonally Adjusted Annual Rates)

	1981-83	1984-85	1987-89	1990-92	1993-95	1981	1982	1983
Employment—Nonag. W. & S.	2750	2921	2987	3027	3081	2690	2748	2811
% Change	2.0	2.0	.7	.4	.6	1.6	2.1	2.3
Manufacturing	688	710	702	695	694	672	690	702
% Change	1.1	1.1	-.4	-.3	-.0	-.2	2.6	1.8
Non-Manufacturing	2062	2211	2286	2332	2386	2018	2058	2109
% Change	2.3	2.4	1.1	.7	.8	2.2	2.0	2.5
Unemployment Rate	5.4	4.9	5.7	5.8	5.7	5.8	5.4	5.1
Employment Rate Index*	110.5	115.0	115.9	116.6	117.6	109.1	110.4	112.1
% Change	.9	1.3	.2	.2	.3	1.1	1.2	1.5
Relative to U.S. Index*	106.6	107.9	107.1	106.7	107.1	106.6	106.3	106.9
Rate of Wage Change	8.7	9.0	8.6	8.2	7.7	9.4	8.7	8.3
Wage Index Rel. to U.S.*	94.2	94.8	94.8	94.2	93.9	94.0	94.3	94.3
Avg. Weekly Hours in Mfg.	40.3	40.3	40.3	40.4	40.4	40.1	40.3	40.4
Rate of Price Inflation	10.3	8.0	8.1	7.7	6.8	10.9	8.4	7.9
Relative to U.S. CPI*	96.6	96.9	97.2	97.2	97.1	96.7	96.5	96.5
Personal Income (mil$)	71441	96778	128158	166421	211049	64087	71368	78867
% Change	11.5	10.6	9.8	9.1	8.2	12.0	11.4	10.5
Disposable Income (mil$)	60149	82399	108333	139756	176251	53500	59992	66956
% Change	11.6	11.1	9.6	8.9	8.0	11.7	12.1	11.6
Real Per Cap. D.I. Index*	108.5	115.5	118.4	120.7	123.3	105.8	108.4	111.2
Relative to U.S.*	102.5	102.3	101.5	101.0	100.9	102.4	102.7	102.5
Rel. Business Cost Index*	96.6	97.0	97.1	96.8	96.6	96.6	96.6	96.7
Manufacturing*	95.6	95.9	96.0	95.8	95.6	95.6	95.6	95.7
Non-Manufacturing*	97.1	97.4	97.6	97.2	97.0	97.0	97.1	97.1

*Indexes equal 100 in calendar 1973.

Massachusetts Business and Economic Report

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